



# **AUDITORS AND ACCOUNTING STANDARDS MODULE**



**MODULE: AA (Auditors and Accounting Standards)**

**Table of Contents**

**Date Last  
Changed**

<b>AA-A Introduction</b>		
AA-A.1	Purpose	01/2011
AA-A.2	Module History	04/2014
<b>AA-B Scope of Application</b>		
AA-B.1	Specialised Licensees	10/2010
AA-B.2	Auditors	10/2010
<b>AA-1 Auditor Requirements</b>		
AA-1.1	Appointment of Auditors	10/2010
AA-1.2	Removal or Resignation of Auditors	10/2010
AA-1.3	Audit Partner Rotation	10/2012
AA-1.4	Auditor Independence	10/2010
AA-1.5	Licensee/Auditor Restrictions	10/2012
<b>AA-2 Access</b>		
AA-2.1	CBB Access to Auditors	10/2010
AA-2.2	Auditor Access to Outsourcing Providers	10/2010
<b>AA-3 Auditor Reports</b>		
AA-3.1	Review of Quarterly Prudential Returns	07/2011
AA-3.2	Review of Financial Disclosures	04/2014
AA-3.3	[This Section was deleted in October 2012]	10/2012
<b>AA-4 Accounting Standards</b>		
AA-4.1	General Requirements	10/2010
<b>AA-5 Role of External Auditor as Appointed Expert</b>		
AA-5.1	General Requirements	04/2012
AA-5.2	[This Section was moved to Section BR-3.5 for money changers and administrators or GR for representative offices]	04/2012
AA-5.3	[This Section was moved to Section BR-3.5 for money changers and administrators or GR for representative offices]	04/2012
AA-5.4	[This Section was moved to Section BR-3.5 for money changers and administrators or GR for representative offices]	04/2012
AA-5.5	[This Section was moved to Section BR-3.5 for money changers and administrators or GR for representative offices]	04/2012



MODULE	AA:	Auditors and Accounting Standards
CHAPTER	AA-A:	Introduction

## AA-A.1 Purpose

### *Executive Summary*

AA-A.1.1 This Module presents requirements that have to be met by specialised licensees with respect to the appointment of external auditors. This Module also sets out certain obligations that external auditors have to comply with, as a condition of their appointment by specialised licensees.

AA-A.1.2 This Module is issued under the powers given to the Central Bank of Bahrain ('CBB') under Decree No. (64) of 2006 with respect to promulgating the Central Bank of Bahrain and Financial Institutions Law 2006 ('CBB Law'). It supplements Article 61 of the CBB Law, which requires licensees to appoint an external auditor acceptable to the CBB.

### *Legal Basis*

#### AA-A.1.3

This Module contains the CBB's Directive (as amended from time to time) relating to auditors and accounting standards used by specialised licensees, and is issued under the powers available to the CBB under Article 38 of the CBB Law. The Directive in this Module is applicable to all specialised licensees (where applicable).

AA-A.1.4 For an explanation of the CBB's rule-making powers and different regulatory instruments, see Section UG-1.1.



<b>MODULE</b>	<b>AA: Auditors and Accounting Standards</b>
<b>CHAPTER</b>	<b>AA-A: Introduction</b>

## AA-A.2 Module History

### *Evolution of Module*

AA-A.2.1 This Module was first issued in October 2010. Any material changes that are subsequently made to this Module are annotated with the calendar quarter date in which the change is made; Chapter UG-3 provides further details on Rulebook maintenance and version control.

AA-A.2.2 A list of recent changes made to this Module is provided below:

Module Ref.	Change Date	Description of Changes
AA-A.1.3	01/2011	Clarified legal basis.
AA-3.1.1	07/2011	Excluded money changers and administrators from Paragraph AA-3.1.1.
AA-5	04/2012	Chapter amended and content moved to Section BR-3.5 for money changers and administrators (or Module GR for rep offices) and retitled as Role of External Auditor as Appointed Expert.
AA-1.3.2	10/2012	Guidance Paragraph deleted as five year period varies depending on type of specialised licensee and when license was granted.
AA-1.5.4 and AA-1.5.5	10/2012	Clarified guidance by indicating what Law is being referred to.
AA-3.3	10/2012	Section deleted as report can now also be completed by approved consultancy from as per Section FC-4.3.
AA-3.2.2 and AA-3.2.3	04/2014	Added specific auditor reports applicable to financing companies.



<b>MODULE</b>	<b>AA: Auditors and Accounting Standards</b>
<b>CHAPTER</b>	<b>AA-B: Scope of Application</b>

## AA-B.1 Specialised Licensees

AA-B.1.1 The contents of this Module – unless otherwise stated – apply to all specialised licensees. Representative Offices are exempted from this Module.

AA-B.1.2 The contents of this Module apply to both Bahraini specialised licensees and overseas specialised licensees.



<b>MODULE</b>	<b>AA: Auditors and Accounting Standards</b>
<b>CHAPTER</b>	<b>AA-B: Scope of Application</b>

## AA-B.2 Auditors

AA-B.2.1 Certain requirements in this Module indirectly extend to auditors, by virtue of their appointment by specialised licensees. Auditors appointed by specialised licensees must be independent (cf. Sections AA-1.4 and AA-1.5). Auditors who resign or are otherwise removed from office are required to inform the CBB in writing of the reasons for the termination of their appointment (cf. Sections AA-1.2). Other requirements are contained in Sections AA-1.3 (Audit partner rotation) and AA-3.1 (Auditor reports).



MODULE	AA: Auditors and Accounting Standards
CHAPTER	AA-1: Auditor Requirements

## AA-1.1 Appointment of Auditors

### AA-1.1.1

**Specialised licensees must obtain prior written approval from the CBB before appointing or re-appointing their auditor.**

AA-1.1.2 As the appointment of auditors normally takes place during the course of the firm's annual general meeting, specialised licensees should notify the CBB of the proposed agenda for the annual general meeting in advance of it being circulated to shareholders. The CBB's approval of the proposed auditors does not limit in any way shareholders' rights to subsequently reject the Board's choice.

AA-1.1.3 The CBB, in considering the proposed (re-) appointment of an auditor, takes into account the expertise, resources and reputation of the audit firm, relative to the size and complexity of the licensee. The CBB will also take into account the track record of the audit firm in auditing specialised licensees within Bahrain; the degree to which it has generally demonstrated independence from management in its audits; and the extent to which it has identified and alerted relevant persons of significant matters. Finally, the CBB will also consider the audit firm's compliance with applicable laws and regulations (including legislative Decree No. 26 of 1996; the Ministry of Industry and Commerce's Ministerial Resolution No. 6 of 1998; and relevant Bahrain Stock Exchange regulations).

AA-1.1.4 In the case of overseas specialised licensees, the CBB will also take into account who act as the auditors of the parent firm. As a general rule, the CBB does not favour different parts of a specialised licensee group having different auditors.



MODULE	AA: Auditors and Accounting Standards
CHAPTER	AA-1: Auditor Requirements

## AA-1.2 Removal or Resignation of Auditors

### AA-1.2.1

Specialised licensees must notify the CBB as soon as they intend to remove their external auditor, with an explanation of their decision, or as soon as their auditor resign.

### AA-1.2.2

Specialised licensees must ensure that a replacement auditor is appointed (subject to CBB approval as per Section AA-1.1), as soon as reasonably practicable after a vacancy occurs, but no later than three months.

### AA-1.2.3

The external auditor of specialised licensees must inform the CBB in writing, should it resign or its appointment as auditor be terminated, within 30 calendar days, of the event occurring, setting out the reasons for the resignation or termination.





MODULE	AA: Auditors and Accounting Standards
CHAPTER	AA-1: Auditor Requirements

### AA-1.3 Audit Partner Rotation

#### AA-1.3.1

Unless otherwise exempted by the CBB, specialised licensees must ensure that the audit partner responsible for their audit does not undertake that function more than five years in succession.

#### AA-1.3.2

[This Paragraph was deleted in October 2012].

#### AA-1.3.3

Specialised licensees must notify the CBB of any change in audit partner.



MODULE	AA: Auditors and Accounting Standards
CHAPTER	AA-1: Auditor Requirements

#### AA-1.4 Auditor Independence

##### AA-1.4.1

Article 61(d) of the CBB Law imposes conditions for the auditor to be considered independent. Before a specialised licensee appoints an auditor, it must take reasonable steps to ensure that the auditor has the required skill, resources and experience to carry out the audit properly, and is independent of the licensee.

##### AA-1.4.2

For an auditor to be considered independent, it must, among things, comply with the restrictions in Section AA-1.5.

##### AA-1.4.3

If a specialised licensee becomes aware at any time that its auditor is not independent, it must take reasonable steps to remedy the matter and notify the CBB of the fact.

##### AA-1.4.4

If in the opinion of the CBB, independence has not been achieved within a reasonable timeframe, then the CBB may require the appointment of a new auditor.



MODULE	AA: Auditors and Accounting Standards
CHAPTER	AA-1: Auditor Requirements

## AA-1.5 Licensee/Auditor Restrictions

### *Financial Transactions with Auditors*

**AA-1.5.1** Specialised licensees must not provide regulated services to their auditor.

### *Outsourcing to Auditors*

**AA-1.5.2** Specialised licensees may not outsource their internal audit function to the same firm that acts as their (external) auditor.

### *Other Relationships*

**AA-1.5.3** Specialised licensees and their auditor must comply with the restrictions contained in Article 217 (c) of the Commercial Companies Law (Legislative Decree No. (21) of 2001), as well as in Article 61(d) of the CBB Law.

AA-1.5.4 Article 217(c) of the Commercial Companies Law prohibits an auditor from (i) being the chairman or a member of the Board of Directors of the licensee he/she audits; (ii) holding any managerial position in the licensee he/she audits; and (iii) acquiring any shares in the licensee he/she audits, or selling any such shares he/she may already own, during the period of his audit. Furthermore, the auditor must not be a relative (up to the second degree) of a person assuming management or accounting duties in the licensee.

AA-1.5.5 Article 61(d) of the CBB Law prohibits an auditor from (i) being the chairman or a member of the Board of Directors of the licensee he/she audits; (ii) acting as a managing director, agent or representative of the licensee concerned; and (iii) taking up any administrative work in the licensee, or supervising its accounts, or having a next of kin in such a position.

AA-1.5.6 The restriction in Paragraph AA-1.5.4 applies to overseas specialised licensees as well as Bahraini specialised licensees.



MODULE	AA: Auditors and Accounting Standards
CHAPTER	AA-1: Auditor Requirements

## AA-1.5 Licensee/Auditor Restrictions (continued)

### *Other Relationships (continued)*

AA-1.5.7

A partner, Director or manager on the engagement team of auditing a specialised licensee may not serve on the Board or in a controlled function of the licensee, for two years following the end of their involvement in the audit, without prior authorisation of the CBB.

AA-1.5.8

Chapter AU-1.2 sets out the CBB's "controlled functions" requirements.

### *Definition of 'Auditor'*

AA-1.5.9

For the purposes of Section AA-1.5, 'auditor' means the partners, Directors and managers on the engagement team responsible for the audit of the specialised licensee.



MODULE	AA: Auditors and Accounting Standards
CHAPTER	AA-2: Access

## AA-2.1 CBB Access to Auditors

### AA-2.1.1

Specialised licensees must waive any duty of confidentiality on the part of their auditor, such that their auditor may report to the CBB any concerns held regarding material failures by the specialised licensee to comply with CBB requirements.

### AA-2.1.2

The CBB may, as part of its on-going supervision of specialised licensees, request meetings with a licensee's auditor. If necessary, the CBB may direct that the meeting be held without the presence of the licensee's management or Directors.



MODULE	AA: Auditors and Accounting Standards
CHAPTER	AA-2: Access

## AA-2.2 Auditor Access to Outsourcing Providers

### AA-2.2.1

Outsourcing agreements between specialised licensees and outsourcing providers must ensure that the licensee's internal and external auditors have timely access to any relevant information they may require to fulfil their responsibilities. Such access must allow them to conduct on-site examinations of the outsourcing provider, if required.

AA-2.2.2 Further Rules and Guidance on outsourcing are contained in Module RM (Risk Management).



MODULE	AA: Auditors and Accounting Standards
CHAPTER	AA-3: Auditor Reports

### AA-3.1 Review of Quarterly Prudential Returns

#### AA-3.1.1

Specialised licensees, other than money changers and administrators, must arrange for their auditor to review the licensee's Quarterly Prudential Return to the CBB prior to its submission, unless otherwise exempted in writing by CBB. The auditor must complete the prescribed form attesting to its review, which must be attached to the Quarterly Prudential Return.

#### AA-3.1.2

Specialised licensees are required to submit a Quarterly Prudential Return (QPR). Specialised licensees may apply in writing to CBB for an exemption from the requirement that the QPR be reviewed by the licensee's external auditor: this exemption would normally only be given where the licensee had established a track record of accurate and timely reporting, and there were no other supervisory issues of concern. Further details on the CBB's reporting and related requirements, including the precise scope of the auditor's review and attestation, will be contained in Module BR (CBB Reporting).



MODULE	AA:	Auditors and Accounting Standards
CHAPTER	AA-3:	Auditor Reports

## AA-3.2 Review of Financial Disclosures

### AA-3.2.1

Specialised licensees that are required to publish financial disclosures in accordance with **Module PD** must arrange for their external auditor to review these prior to their publication, unless otherwise exempted in writing by the CBB.

### AA-3.2.2

Financing companies must arrange for their external auditor to review the annual disclosures required in Module PD, Section PD-1.3 and Chapter PD-4, prior to their submission to the CBB or their publication. This review must be in the form of an agreed-upon procedures report (see also PD-A.2.4). The report must be submitted to the CBB within 3 months of the year end of the concerned financing company (see also Paragraph BR-1.1.2).

### AA-3.2.3

Financing companies must arrange for their external auditor to review the disclosures in the half-yearly financial statements required by Module PD, Paragraph PD-2.1.6 prior to their submission to the CBB or their publication. This review must be in the form of an agreed-upon procedure report. This report must be submitted to the CBB within two months of the end of the half year reporting period of the concerned financing company (see also Section BR-1.2.4).





<b>MODULE</b>	<b>AA: Auditors and Accounting Standards</b>
<b>CHAPTER</b>	<b>AA-3: Auditor Reports</b>

**AA-3.3 Report on Compliance with Financial Crime Rules**  
[This Section was deleted in October 2012]



MODULE	AA: Auditors and Accounting Standards
CHAPTER	AA-4: Accounting Standards

## AA-4.1 General Requirements

### AA-4.1.1

Specialised licensees must comply with International Financial Reporting Standards / International Accounting Standards and, to the extent that they undertake Shari'a compliant activities, relevant standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

AA-4.1.2 Overseas specialised licensees that do not, at the parent licensee level, apply IFRS/IAS are still required under Paragraph AA-4.1.1 to produce pro-forma accounts for the Bahrain branch in conformity with these standards. Where this requirement is difficult to implement, the Bahraini specialised licensee should contact the CBB in order to agree to a solution.

AA-4.1.3 Paragraph AA-4.1.1 requires specialised licensees that operate exclusively on a Shari'a compliant basis to apply relevant AAOIFI Financial Accounting Standards, depending on the type of Islamic finance contracts entered into. Specialised licensees that undertake both conventional finance and Shari'a compliant transactions are required by Paragraph AA-4.1.1 to apply AAOIFI Financial Accounting Standard 18, "Islamic Financial Services Offered by Conventional Financial Institutions".



<b>MODULE</b>	<b>AA:</b>	<b>Auditors and Accounting Standards</b>
<b>CHAPTER</b>	<b>AA-5:</b>	<b>Role of External Auditor as Appointed Expert</b>

## AA-5.1 General Requirements

AA-5.1.1 In accordance with Articles 114 and 121 of the CBB Law, the CBB may appoint appointed experts to undertake on-site examinations or report by way of investigations on specific aspects of a licensee's business. External auditors may be called upon to be appointed experts and should be aware of their role in that capacity by referring to Section BR-3.5 for money changers and administrators or Module GR for representative office licensees.

[The Rules and guidance in this Section were moved to Section BR-3.5 for money changers and administrators and Module GR for Representative offices in April 2012]



<b>MODULE</b>	<b>AA:</b>	<b>Auditors and Accounting Standards</b>
<b>CHAPTER</b>	<b>AA-5:</b>	<b>Role of Appointed Experts</b>

## **AA-5.2 The Required Report**

[The Rules and guidance in this Section were moved to Section BR-3.5 for money changers and administrators and Module GR for Representative offices in April 2012]



<b>MODULE</b>	<b>AA: Auditors and Accounting Standards</b>
<b>CHAPTER</b>	<b>AA-5: Role of Appointed Experts</b>

### **AA-5.3 Other Notifications to the CBB**

[The Rules and guidance in this Section were moved to Section BR-3.5 for money changers and administrators and Module GR for Representative offices in April 2012]



<b>MODULE</b>	<b>AA:</b>	<b>Auditors and Accounting Standards</b>
<b>CHAPTER</b>	<b>AA-5:</b>	<b>Role of Appointed Experts</b>

#### **AA-5.4 Permitted Disclosure by the CBB**

[The Rules and guidance in this Section were moved to Section BR-3.5 for money changers and administrators and Module GR for Representative offices in April 2012]



<b>MODULE</b>	<b>AA:</b>	<b>Auditors and Accounting Standards</b>
<b>CHAPTER</b>	<b>AA-5:</b>	<b>Role of Appointed Experts</b>

## **AA-5.5      Trilateral Meeting**

[The Rules and guidance in this Section were moved to Section BR-3.5 for money changers and administrators and Module GR for Representative offices in April 2012]